



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE RAMOTSHERE MOILOA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ramotshere Moiloa Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.



Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate evidence for infrastructure assets of R359 477 319 (2013: R347 438 039) included in property, plant and equipment as disclosed in note 4 to the financial statements as the unit costs used by the municipality to determine the values of these assets could not be substantiated. I was unable to confirm the valuation of these infrastructure assets included in property, plant and equipment by alternative means. In addition, roads and storm water assets was understated by R2 696 280 (2013: R2 696 280). Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R416 771 426 (2013: R371 393 964) in the financial statements was necessary.

Cash and cash equivalents

7. I was unable to obtain sufficient appropriate evidence for unreconciled differences between cash and cash equivalents disclosed in note 12 to the financial statements and the bank statements due to the status of the accounting records. I was unable to confirm the amount of cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments relating to cash and cash equivalents of R18 157 447 (2013: R25 471 518) in the financial statements were necessary.

Accumulated surplus

8. I was unable to obtain sufficient appropriate audit evidence for the adjustments to the accumulated surplus due to the status of the accounting records. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus of R402 492 452 (2013: R369 761 739) as presented in the statement of financial position and statement of changes in net assets were necessary.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ramotshere Moiloa Local Municipality as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

11. As disclosed in note 49 to the financial statements, irregular expenditure of R23 647 251 was incurred in the current year and irregular expenditure from prior years of R20 913 090 has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

12. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during the 30 June 2014 in the financial statements of the Ramotshere Moiloa Local Municipality at, and for the year ended, 30 June 2013.



Significant uncertainties

13. With reference to note 40 to the financial statements, the municipality is the defendant in a number of legal matters. The municipality is contesting these claims. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses and impairments

14. As disclosed in note 11 to the financial statements, material impairments to the amount of R55 349 185 (2013: R93 482 714) were incurred as a result of a provision for irrecoverable consumer debtors.
15. As disclosed in note 29 to the financial statements, material losses to the amount of R23 473 072 were incurred as a result of a write-off of irrecoverable trade debtors and a provision for debt impairment in the prior year ended 30 June 2013.
16. As disclosed in note 52 to the financial statements, material losses to the amount of R10 428 620 (2013: R11 509 815) were incurred as a result of distribution losses.

Additional matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

18. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

19. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

20. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

21. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 3: Sustainable delivery of improved services to all households XX to XX
22. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
23. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined,



verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

24. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the selected development priorities are as follows:

Development priority 3: Sustainable delivery of improved services to all households

Usefulness of reported performance information

26. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives were not consistent with those in the approved IDP. This was due to a lack of review and monitoring of the completeness of reporting documents by management.
27. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measureable and time bound:
- We could not measure the required performance for 27% of the targets;
 - A total of 27% of the indicators were not verifiable;
 - A total of 38% of the indicators were not well defined.
 - A total of 23% of the targets were not specific.

This was due to policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities which were not established and communicated.

Reliability of reported performance information

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Additional matters

29. I draw attention to the following matters.

Achievement of planned targets

30. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 26 to 29 of this report.

Unaudited supplementary information

31. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.



Compliance with legislation

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

33. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Strategic planning and performance management

34. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
35. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review and improvement and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations (MPPMR).
36. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

Financial statements, performance and annual reports

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit committee

38. An audit committee was not in place for most of the year under review, as required by section 166(1) of the MFMA.

Internal audit

39. An internal audit unit was not established for most of the year under review, as required by section 165(1) of the MFMA.

Procurement and contract management

40. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and Supply Chain Management (SCM) regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

41. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.



Waste management

42. The municipality operated its waste disposal sites and wastewater treatment facilities without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
43. The municipality's operational activities at its waste disposal sites(s) and wastewater treatment facility(s) contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.
44. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.
45. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

46. I considered internal control relevant to my audit of the financial statements, [name of performance report] and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the report on predetermined objectives and the findings on non-compliance with legislation included in this report.

Leadership

47. The accounting officer has not maintained adequate oversight regarding reporting on pre-determined objectives and compliance to laws and regulations as the municipality has not reported on performance on pre-determined objectives quarterly as required by the Municipal Planning and Performance Management Regulations. Action plans to address internal control deficiencies identified on predetermined objectives, financial reporting misstatements and compliance to laws and regulations in the prior year were not adequately implemented and monitored to address control deficiencies which resulted in the similar deficiencies identified in the year under review. Leadership did not ensure that all policies and procedures were effective to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Existing internal controls, including IT systems did not allow management to ensure adequate monitoring of financial and performance information resulting in material misstatements identified in the financial statements and material deviation from legislation being reported.

Financial and performance management

48. Management failed to implement effective controls to ensure that all information in the financial statements and the report on predetermined objectives were reliable before submission for audit. Management could not provide evidence in support of the information presented in the quarterly performance reports and documents were not submitted to verify compliance with legislation.



Governance

49. Management did not adequately assess risks as it was established that the 2013/14 Strategic and Operational Risk Register does not include risks that performance is measured and achieved as the registers only includes strategic risks and not operational risks and the risks are identified for each strategic objective, and operationally and data quality risks. The audit committee did not fulfil all its mandate and the recommendation made by the internal audit were not fully implemented resulting in material misstatements in financial statements and report on predetermined objectives as well as material non-compliance with legislation.

Auditor-General

Rustenburg

30 November 2014



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